Utilities – Renewable Energy

Softening Module Prices Bode Well For The Sector

OVERWEIGHT
(Maintained)

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Highlights

- Polysilicon prices have declined sharply to its 2025 low, owing to persistent downstream demand weakness and elevated inventory levels. Together with slowdowns in China's solar installation projects to-date, we believe solar module prices are softening or normalising. Looking forward to CRESS project and LSS6 wins, we expect the sector to resume its growth trajectory.
- Elsewhere, Malaysia's government has indefinitely postponed the implementation of carbon tax on high-emission sectors, citing the government's efforts to mitigate further cost pressures amid the Middle East conflict.
- Maintain OVERWEIGHT. Our sector top picks are Tenaga Nasional, Solarvest, Pekat Group and Northern Solar.

Analysis

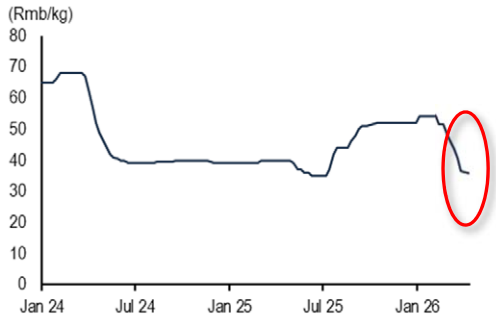
- **Polysilicon prices fall back to a low range…** We note that polysilicon prices have fallen sharply, nearing its 2025 low of Rmb34/kg (-32% ytd), likely reflecting downstream demand weakness and elevated inventory levels. Attempts by polysilicon producers to raise price quotations have yet to translate into meaningful transactions as buyers remain cautious and adopt a wait-and-see approach. We expect demand to stay muted into mid-26, following earlier front-loading of global solar module purchases ahead of the removal of the 9% VAT export tax rebate in Apr 26. To recap, 2H25 saw polysilicon prices surging as high as Rmb54/kg (+39% yoy), driven by expectations of the China government's intervention to curb 'involution-style' low-price competition and accelerate the phase-out of outdated industrial capacity in China. Recent polysilicon price correction suggests that the short-lived rally may have been driven by sentiment rather than structural demand recovery.
- **… and demand for solar module in China is tapering off.** In addition, we understand that there is a slowdown in China's solar installation project to-date. This has prompted China solar module players to target the Europe and other Asia export markets, suggesting that the brakes are now being stepped on for solar module prices. In 1Q26, global solar markets saw front-loading of module orders, prompting manufacturers to reprice contracts and lift module prices up to USD0.13/W (Dec 25: USD0.11/W). Solar modules are currently trading at USD0.11-0.12/W with downward bias, underpinned by: a) slowdown in China's solar installation projects; b) severe overcapacity and elevated inventory levels; and c) declining upstream material prices.
- **Prospect for the sector remains bright, CRESS to take-off soon.** Given early indication of softening or normalising solar module prices (at US0.11-0.12/W), we expect the sector to resume its growth trajectory. We look forward to: a) CRESS projects – to lift EPCC players' orderbook given that these large-scale solar farm concessions will target data centre heavy energy users; and b) resumption of Large-Scale Solar projects – more imminently, the long awaited LSS6 tender to be called by mid-26.

Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
Tenaga	BUY	16.30	6.0	3.9
Solarvest	BUY	3.00	20.9	0.0
Pekat Group	BUY	2.00	7.9	0.6
Northern Solar	BUY	1.00	8.1	0.0

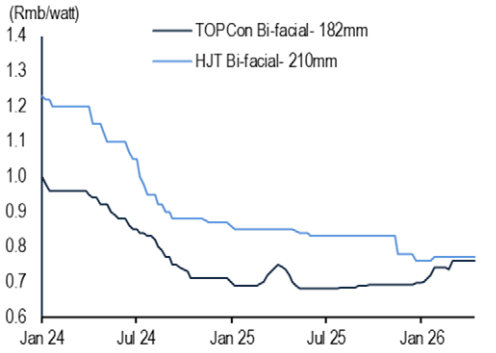
Source: Bloomberg, UOB Kay Hian

Polysilicon Prices Fall To 2025 Low



Source: InfoLink, UOB Kay Hian

Solar Module Prices



Source: InfoLink, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 24 Apr 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2026F (x)	PE 2027F (x)	EV/EBITDA 2026F (x)	EV/EBITDA 2027F (x)	Dividend Yield 2026F (%)	Dividend Yield 2027F (%)
Malakoff Corp	MLK MK	HOLD	0.855	0.90	4,178	15.9	13.8	4.7	4.3	5.3	6.1
Tenaga	TNB MK	BUY	13.86	16.30	85,455	17.3	16.8	6.0	5.9	3.9	4.2
Gas Malaysia	GMB MK	HOLD	5.37	4.25	6,895	16.3	15.8	10.1	9.8	4.7	4.8
Renewable Energy											
Solarvest Holdings	SOLAR MK	BUY	2.85	3.00	2,717	35.6	27.6	20.9	16.9	0.0	0.0
Pekat Group	PEKAT MK	BUY	1.60	2.00	1,313	20.9	17.6	7.9	6.4	0.6	0.6
Northern Solar	NORTHERN MK	BUY	0.66	1.00	261	16.6	11.6	8.1	5.4	0.0	0.0

Source: Bloomberg, UOB Kay Hian

- **Carbon tax implementation postponed.** The Natural Resources and Environmental Sustainability Minister recently announced that the expected implementation of carbon tax on high-emission sectors such as steel, iron and energy will be deferred. The decision is driven by the government's efforts to mitigate further cost pressures on high-emission industries and end-consumers, amid rising materials cost due to the ongoing Middle East conflict. We view this as a positive relief for utilities players as the proposed carbon tax may materially hamper sentiment and future earnings of the likes of Tenaga Nasional Berhad and Malakoff.
- **National Carbon Market given priority.** With the official launch of the National Carbon Market Policy (NCMP) in Apr 26 and the anticipated tabling of the National Climate Change Bill (RUUPIN) in mid-26, Malaysia aims to establish a solid national carbon emissions scheme. This framework is intended to enable the effective implementation and enforcement of: a) a high-integrity carbon market; b) a national carbon registry for emissions measurement and price discovery; c) international carbon trading participation; and d) carbon tax to promote energy transition adoption. These measures will provide the foundation for both voluntary and compliance carbon markets, with enforcement to be strengthened over time.
- **Carbon credit demand to boost Malaysia's carbon market.** The proposed carbon tax is projected to be introduced at an initial rate of RM15 per tonne of carbon dioxide equivalent (tCO2e), with gradual upward adjustments as Malaysia's national carbon emissions framework matures. This is projected to boost carbon credit demand, as high-emission companies look to offset up to 5% of their taxable Scope 1 emissions (practiced by Singapore), to reduce their carbon tax exposure. However, carbon credits currently traded on the Bursa Carbon Exchange (BCX) are priced between RM9.50 and RM100.00 per tCO2e, averaging RM39.85 per tCO2e, making them an unattractive alternative to direct carbon tax payments at the initial tax level. As such, meaningful demand for carbon credits is likely to materialise only when credit prices fall below the effective carbon tax rate, which we estimate could take approximately 3-5 years.

Sensitivity Analysis Of Tenaga's Carbon Tax Impact

	2025 Scope 1 Emissions (tCO□e) mil	Taxable Emissions (tCO□e) mil	Carbon Tax Rate (RM/tCO□e)	Tax Payable (RMm)	2026F Pretax Profit Impact
Without carbon credit offset	39.31	39.31	15.00	589.65	9.33%
With 5% carbon credit offset	39.31	37.34	15.00	560.17	8.87%

Source: Tenaga, UOB Kay Hian

Sensitivity Analysis Of Malkoff's Carbon Tax Impact

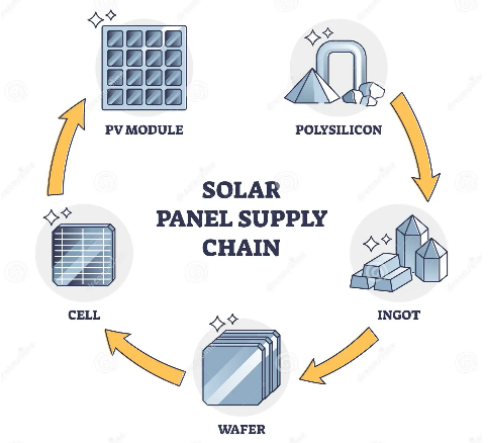
	2024 Scope 1 Emissions (tCO□e) mil	Taxable Emissions (tCO□e) mil	Carbon Tax Rate (RM/tCO□e)	Tax Payable (RMm)	2026F Pretax Profit Impact
Without carbon credit offset	19.06	19.06	15.00	285.95	58.76%
With 5% carbon credit offset	19.06	18.11	15.00	271.65	55.83%

Source: Malkoff, UOB Kay Hian

Valuation/Recommendation

- **Maintain OVERWEIGHT; elevated orderbook driven by over 6.5GW of solar plant-ups.** We expect total solar PV capacity to exceed 6.5GW over 2026-29 as the government calls for tenders for the LSS6 and sees the take-off of CRESS projects. Assuming a construction cost of RM2.0m-3.5m per MW, total EPCC replenishment opportunities are estimated at a staggering RM13b-23b in the next five years. Additionally, potential opportunities of up to 8GW of brownfield and greenfield gas-fired power plants, as part of the

Solar Module Supply Chain



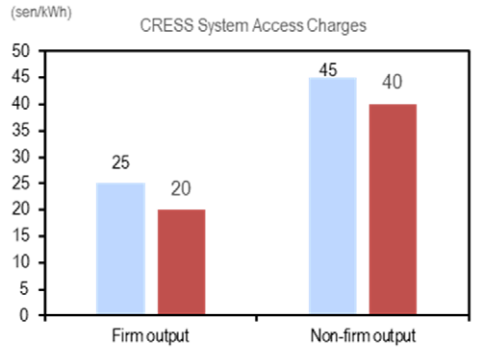
Source: dreamstime

Last Done Prices For Carbon Credits

	Product Type	Product Code	Price/ Unit
Carbon Credits	Malaysia Nature-Based Plus Carbon Contract	MNC+v22	RM77.00
	Malaysia Nature-Based Plus Carbon Contract	MNC+v21	RM100.00
	Malaysia Nature-Based Plus Carbon Contract	MNC+v20	RM52.64
	Malaysia Nature-Based Plus Carbon Contract	MNC+v19	RM50.00
	Malaysia Nature-Based Plus Carbon Contract	MNC+v18	RM50.00
	Malaysia Nature-Based Plus Carbon Contract	MNC+v17	RM38.42
	Malaysia Nature-Based Plus Carbon Contract	MNC+v16	RM47.04
	Malaysia Technology-Based Carbon Contract	MTCv23	RM39.60
	Global Technology-Based Carbon Contract	GTCv24	RM22.75
	Global Technology-Based Carbon Contract	GTCv20	RM10.00
	Global Technology-Based Carbon Contract	GTCv19	RM9.50
	Global Nature-Based Plus Carbon Contract	GNC+v21	RM68.00
	Global Nature-Based Plus Carbon Contract	GNC+v19	RM32.00
	Global Nature-Based Carbon Contract	GNCv20	RM51.00

Source: BCX

Previous CRESS SAC Revision



Source: EC, UOB Kay Hian

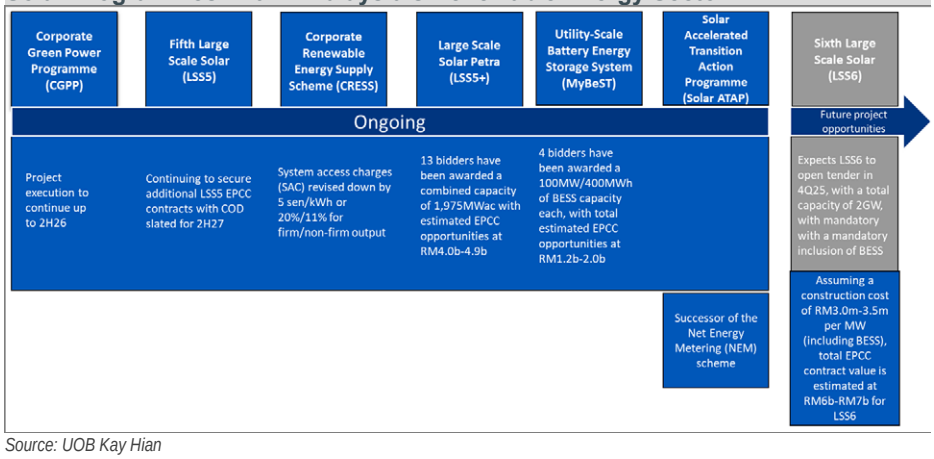
government's decarbonisation plan, are a boon for the sector. **Our sector top picks are Tenaga Nasional, Solarvest, Pekat Group and Northern Solar.**

- **LSS6 tender to be called by Apr 26.** Our channel checks indicate that the Energy Commission of Malaysia (EC) would initiate the tender exercise for the LSS6 programme by Apr 26, with an estimated allocation of 2GW. We expect LSS6 to incorporate mandatory inclusion of BESS and with a greater allocation for floating solar farms (LSS5: 399.99MWac, LSS5+: 200MWac). Assuming a construction cost of RM3.0m-3.5m per MW (including BESS), total EPCC contract value is estimated at RM6b-7b for LSS6.

Sector Catalyst/Risk

- **EC to refine its TPA policies.** Energy Commission (EC) announced that it is actively reviewing its third-party access (TPA) policies for the nation's electricity transmission and distribution. The review encompasses TPA schemes, namely the corporate renewable energy supply scheme (CRESS) and community renewable energy aggregation mechanism (CREAM) programmes. The revision comes as both the CRESS and CREAM schemes has been seeing discouraging uptake, even after the previous 5sen/kWh revision, the system access charge (SAC) for CRESS projects to 20sen/kWh for firm output (includes BESS) and 40sen/kWh for non-firm output.
- **CRESS projects to take-off post-revision.** To recap, the CRESS scheme enables businesses to procure green electricity from the national grid through a TPA agreement. To use the national grid, a SAC is charged by Tenaga Nasional for transmitting electricity to end-users. We believe the SAC rate may be revised downward further, as a result of industry feedback and expect a slew of CRESS projects – specifically from DC offtakers – to kick off in 2H26. As such, we expect EPCC jobs to materialise by 1H27. Assuming a construction cost of RM2.0m-2.5m per MW, total EPCC opportunities are estimated at a staggering RM1.0b-1.2b per project, requiring up to two years to complete.

Solar Programmes Within Malaysia's Renewable Energy Sector



Source: UOB Kay Hian

Solar And BESS Programmes

Programmes	Estimated Contract Value	Timeline
LSS5	RM4b-5b (1,780MW)	- Financial close expected in 3Q-4Q25 - Construction to begin in 2026 - Commercial operation date slated for 2H27
LSS5+	RM4b-5b (1,975MW)	- EPCC jobs expected to be awarded in 4Q25/1Q26 - Financial close expected in 1H26 - Construction to begin in 2H26 - Commercial operation date slated for 4Q27
MyBeST	RM1.6b (400MW/1,600MW)	- 4x 100MW/400MWh utility-scale BESS projects - Awarded in Dec 25 - Commercial operation date slated for Apr 28 (15-year PPA)
LSS6	RM6b-7b (2,000MW)	- Bidding to kick off in 2Q26 - Construction to begin in 2027 - Inclusion of BESS for certain packages - Commercial operation date slated for 2028

Source: EC, UOB Kay Hian

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